

Message Text

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SUBJECT: HIGHLIGHTS GOM 1976 CENTRAL BUDGET: DEFENSE, INVESTMENT,
CURRENT BUDGETS ANALYZED

REF: 75 RABAT 5999

1. SUMMARY: MOROCCAN FINANCE MINISTER ON DECEMBER 29
ANNOUNCED MAJOR OUTLINES OF 1976 CENTRAL GOVERNMENT BUDGET.
BOTH SOURCES OF REVENUE AND PROJECTED OPERATING BUDGET SHOW
ABSOLUTE DECLINES FORCED BY STRINGENCIES ARISING FROM 37 PER
CENT FALL IN PHOSPHATE REVENUES; MAJOR CEREALS IMPORTS
NECESSITATED BY 1975 CROP FAILURE; DECLINE IN CITRUS EARNINGS;
SLOWING REMITTANCES FROM WORKERS ABROAD; AND LESS-THAN-
EXPECTED TOURIST REVENUES. INVESTMENT BUDGET PARADOXICALLY
PROJECTS 57 PER CENT RISE AS PUBLIC SECTOR AGAIN TO BE
RELIED UPON TO PULL PRIVATE SECTOR THROUGH PROTRACTED QUASI-
RECESSION. DEFENSE BUDGET REFLECTS SHARP JUMP, UP 72 PER
CENT FROM 1975 LEVEL. MORE DEFENSE MONEY PROBABLY LAYERED
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INTO OTHER MINISTRY BUDGETS. RESULTANT DEFICIT TO BE

FINANCED BY 50 PER CENT CUT IN FOOD SUBSIDIES, MAJOR EURO-BORROWING, UNDETAILED OTHER LOANS AND GRANTS, AND FAST FOOTWORK IN PUBLIC SECTOR CONTRACTING. WHILE BUDGET CONTAINS SOME HIGH RISK ELEMENTS, IT SHOWS CAREFUL CRAFTSMANSHIP AND CONSIDERABLE COURAGE. WITH LUCK MOROCCO MAY EMERGE FROM CURRENT ECONOMIC SLOWDOWN IN BETTER POSITION THAN LESS BOLD LDC'S. MALFORTUNE OR INEPT MANAGEMENT IN ANY ONE OF SEVERAL AREAS COULD, HOWEVER, CONTRONT REGIME WITH MAJOR HEADACHES. END SUMMARY.

2. CONSOLIDATED REVENUES FOR 1976 SHOW ABSOLUTE FALL IN PROJECTED INCOME FROM DH 10.3 BILLION (\$2.45B) TO DH 9.7B (\$2.31B). FIVE PER CENT DROP LARGELY DUE TO EXPECTED FALL IN TAXES ON INCOMES AND PROFITS RESULTING FROM HIGHER UNEMPLOYMENT, LOWER CORPORATE EARNINGS, AND COSMETIC REDUCTION IN TAXES ON LOWEST INCOME GROUPS TO SUGAR COAT CONCURRENT 50 PER CENT CUT IN SUBSIDIES ON BASIC COMMODITIES (FLOUR, SUGAR, TEA, VEGETABLE OIL, AND INDUSTRIAL FUEL).

3. CURRENT EXPENDITURES SIDE SHOWS 7 PER CENT DROP IN 1976 PROJECTIONS. ENTIRE REDUCTION STEMS FROM CUT IN SUBSIDIES. WITH 12 PERCENT 1975 INFLATION, THIS REPRESENTS REAL CUT OF NEARLY 20 PERCENT. DEBT SERVICE PROJECTED TO RISE 41 PER CENT, REFLECTING SUBSTANTIAL 1975 BORROWINGS (INCLUDING \$200M EURO-LOAN OF WHICH ONLY \$50M UNDERSTOOD TO HAVE BEEN YET DRAWN) AND ANTICIPATED ADDITIONAL 1976 BORROWINGS (SEE REFTEL).

4. INVESTMENT BUDGET, DESPITE BELT TIGHTENING ELSEWHERE, SHOWS 57 PER CENT RISE FROM DH 6.3B (\$1.5B) TO DH 9.9 (\$2.3B), REFLECTING GOM DETERMINATION TO KEEP PUBLIC SECTOR ENGINE WORKING OVERTIME IN ABSENCE OF PRIVATE BUSINESS ACTIVITY. RISE PARTLY INTENDED TO PROMOTE PRIVATE SECTOR CONFIDENCE AND WE DO NOT RPT NOT BELIEVE ALL CAN BE SPENT IN 1976, REDUCING APPARENT DEFICIT SOMEWHAT.

5. DEFENSE BUDGET. BOTH CURRENT AND INVESTMENT SIDES OF DEFENSE BUDGET ARE NOTABLY HIGHER. OPERATING BUDGET FOR 1976 WILL RISE TO DH 288M, I.E. FROM 10 PER CENT OF TOTAL GOM OPERATING BUDGET IN 1975 TO 14 PER CENT IN 1976. EQUIPMENT OUTLAYS FOR 1976 LISTED AT DH 688 MILLION, UP FROM 8 PER CENT LIMITED OFFICIAL USE

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OF TOTAL INVESTMENT BUDGET TO 12 PER CENT. TOTAL 1976 DEFENSE OUTLAYS THUS PUBLICLY PROJECTED AT DH 976M, OR \$233 MILLION. OBVIOUSLY, IN LIGHT OF WHAT IS KNOWN OF GOM MILITARY BUYING INTENTIONS, SUBSTANTIAL SUMS MUST BE CONCEALED IN OTHER AREAS (LARGE FINANCE MINISTRY "INDEMNITES SPECIALES" AND/OR "UNDECIDED EXPENSES" ITEMS ARE PRIME SUSPECTS). ALTERNATIVELY SOME DEFENSE ITEMS MAY BE OUTSIDE OF BUDGET.

6. FINANCING SHORTFALL. FINMIN IN BUDGET STATEMENT CONFIRMED PHOSPHATE FOREIGN EXCHANGE CONTRIBUTION FOR 1975 WAS SCANT DH 3B (\$750M) COMPARED TO \$1.2B IN 1974. WHILE HE DID NOT SAY SO PUBLICLY, MINISTER HAD SHORTLY BEFORE PRIVATELY INFORMED AMBASSADOR AND ECOUN THAT HE PERXWMNALLY EXPECTS NO EARLY RECOVERY OF DEMAND FOR PHOSPHATES (SEE PARA 3, REFTEL). DESPITE CUTS IN OPERATINB BUDGET, EXTRAORDINARY MEASURES WILL THUS BE NECESSARY TO COVER SHARPLY EXPANDED OUTLAYS FOR PUBLIC INVESTMENT AND DEFENSE. FINANCING FALLS INTO FOUR CATEGORIES:

A. MOST IMPORTANT BOTH FINANCIALLY AND IN TERMS OF SOCIAL REPERCUSSIONS IS 50 PER CENT CUT IN FOOD SUBSIDIES PROGRAM. IN 1975 SUBSIDIES ACCOUNTED FOR ALMOST 40 PER CENT OF TOTAL OPERATING BUDGET--MORE THAN ENTIRE WAGE BILL FOR CIVIL SERVICE. AS PREVIOUSLY REPORTED BY EMBASSY, THIS LEVEL WAS UNSUSTAINABLE. LEVEL OF SUBVENTION PROGRAM MAINTAINED AS LONG AS IT WAS ONLY BECAUSE OF GOVERNMENT DETERMINATION TO OFFSET UNPRECEDENTED 1975 INFLATION WHICH COINCIDED WITH LOST JOBS IN EUROPE, DOMESTIC CROP FAILURE, AND MORIBUND PRIVATE SECTOR. WITH INFLATION ATTENUATING TO 10-12 PER CENT LEVEL AND AT TIME WHEN REGIME ENJOYING EXTRAORDINARY POPULARITY AS RESULT SAHARA SUCCESSES, SITUATION NOW AS FAVORABLE AS IT IS EVER LIKELY TO BE FOR CHOP IN SUBSIDIES PROGRAM.

B. \$400-\$500 MILLION ADDITIONAL EURO-BORROWING SIGNALLED BY FINMIN FOR SPRING 1976 (REFTEL) WILL CONTRIBUTE FURTHER SPAN TO BRIDGING GAP.

C. MINISTERS WILL BE MAKING THE ROUNDS OF EUROPEAN AND ARAB COUNTRIES AGAIN THIS SPRING TO SQUEEZE OUT MORE GRANTS AND LOANS. POSSIBILITY OF IMF DRAWING WILL UNDOUBTEDLY ALSO BE REEXAMINED, THOUGH WE JUDGE THIS WOULD LIMITED OFFICIAL USE

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BE LAST RESORT SINCE IMF POLICY STRAIGHT JACKET WOULD PROVE MAJOR IMPEDIMENT TO ACHIEVING 1976 BUDGET AS DESIGNED.

D. FINALLY, POWER OF MONARCHY HAS ENABLED GOVERNMENT TO ENGAGE INMSFPCAL#FARNT SHUFFLE. AUTHORITY WILL BE EXTENDED TO ENABLE PUBLIC ENTITIES TO SIGN WORKS CONTRACTS TWO YEARS AHEAD IN ABSENCE OF NORMAL OBLIGATIONAL OR OTHER BUDGETARY PROVISIONS.

7. COMMENT: SOME HIGH RISKS ARE EVIDENT IN NEW BUDGET AND SUCCESS CLEARLY RESTS ON FOLLOWING ASSUMPTIONS: (A) WORLD ECONOMIC RECOVERY CONTINUES WITH PHOSPHATE EARNINGS RESTORED WITHIN 12-18 MONTHS, I.E. BY TIME 1977 PAYMENTS ON 1976 CONTRACTS COME DUE; (B) AT LEAST AVERAGE CEREALS HARVEST IN 1976; (C) DOMESTIC ECONOMY PERKS UP WITH PRIVATE SECTOR

TAKING ON PORTION OF EXTRAORDINARY BURDEN ASSUMED BY PUBLIC
SECTOR; AND (D) CONFIDENCE IN REGIME REMAINS HIGH THROUGHOUT
NEXT TWO YEAR PERIOD OF FISCAL RISK, PERMITTING OUTSIDE
BORROWINGS. IF ANY ONE OF ASSUMPTIONS PROVES WRONG, REGIME
COULD BE IN FOR ROUGH RIDE. GIVEN CONSTRAINTS, BUDGET
IMPRESSES US AS WELL-CONCEIVED AND COURAGEOUS THOUGH SOME
MIGHT CHARACTERIZE IT AS DECEPTIVE AND BRASH. EACH ELEMENT
HAS OBVIOUSLY BEEN WEIGHED AS MUCH FOR LONG-TERM GROWTH
EFFECTS AS FOR MORE OBVIOUS IMMEDIATE POLITICAL AND FINANCIAL
REQUIREMENTS. WITH GOOD MANAGEMENT AND LUCK, MOROCCO SHOULD
EMERGE AT END OF PRESENT INTENSE FISCAL SQUEEZE AHEAD OF THE
PACK OF LESS BOLD AND/OR LESS WELL-POSITIONED LDC'S WHO HAVE
AVOIDED BUDGET RISK OPTION. FULLER ANALYSIS, WITH TABLES,
FOLLOWS BY AIRGRAM.
NEUMANN

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